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FISCAL IMPACT STATEMENT

LS 6625

BILL NUMBER: SB 365

NOTE PREPARED: Jan 3, 2010

BILL AMENDED:

SUBJECT: Local Option Tax Rates for Nonresidents.

FIRST AUTHOR: Sen. Broden

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that beginning in 2011 the tax rate imposed on nonresident county taxpayers under the County Option Income Tax (COIT) or the County Adjusted Gross Income Tax (CAGIT) is equal to the tax rate imposed on resident county taxpayers. It removes tax provisions in current law that are superseded by this act.

Effective Date: January 1, 2011.

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the changes to the CAGIT and COIT tax rates for nonresident county taxpayers. The DOR's current level of resources should be sufficient to implement this change.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Summary-* This bill increases the tax rate imposed on nonresident county taxpayers under CAGIT and COIT by making the nonresident rate equal to the resident rate. It is estimated that approximately \$540,000 in additional CAGIT and COIT revenue could be collected from Lake County residents who work in counties imposing CAGIT and COIT. This estimate is based on taxable income reported on individual income tax returns for tax year 2007 (the most recent year available), with projections based on county-level wage and salary growth forecasts. The potential revenue that could be generated by this bill may vary above or below this estimate depending on changes in employment and commuting

patterns. Any additional revenue resulting from this bill will be distributed to the appropriate counties through certified distributions beginning with CY 2011 distributions as determined by the State Budget Agency.

Background Information - Under current statute, CAGIT is imposed on nonresident county taxpayers at a rate of 0.25% and COIT is imposed on nonresident county taxpayers at one-fourth the rate paid by resident county taxpayers. Nonresident county taxpayers include residents from other states and Indiana taxpayers that live in a county that does not impose CAGIT, COIT, or CEDIT and work in a county that imposes at least one of these taxes. Currently, 91 counties impose at least one of these taxes.

Indiana has reciprocal agreements with Kentucky, Michigan, Ohio, Pennsylvania, and Wisconsin. Residents of these states who receive income from Indiana sources pay income taxes to their state of residence. Residents of other states who work in Indiana may be entitled to tax credits against their Indiana AGI tax liability equal to the lesser of income taxes paid to other states, or the amount of Indiana AGI tax liability owed by the taxpayer. Thus, additional revenue resulting from this bill will likely come from Lake County and be distributed to the appropriate counties through certified distributions beginning with CY 2011 distributions as determined by the State Budget Agency.

State Agencies Affected: DOR; State Budget Agency.

Local Agencies Affected: Counties.

Information Sources: OFMA Income Tax database, 2007; LOIT tax rates as of October 22, 2009; Global Insight, Fall 2009 County Wage/Salary Disbursement forecast (for Indiana counties), December 2009.

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